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ABSTRACT

Monitoring school budget expenditures is as important as budgeting. School boards should decide which broad financial policies will provide control of expenditures, what financial tools to use in monitoring expenditures, and what areas outside of the budget should be monitored. A board's financial policy ought to deal with the line item transfers, fixed-charge transfers, year-end transfers and purchases, unanticipated income, revenue shortages, surplus funds, and the issue of whether budget items are defined as numbers of units used or numbers of dollars spent. Tools for monitoring expenditures should include reports on revenues, appropriations, cash, bills, and net worth. These reports should be balanced monthly. Besides the budget, other areas to be monitored should include school accounts, athletic funds (such as gate receipts), and cafeteria accounts. Cash revenues from such accounts should be deposited immediately, and the same financial controls should apply to them as apply to the rest of the budget. (RW)

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ONCE ESTABLISHED, WHAT TECHNIQUES WORK BEST FOR MONITORING THE DISTRICT

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Before we begin our discussion today I think it is important that the audience know any personal persuasions of the speaker, 1) I am a fiscal conservative; 2) I view the Board/Administration relationship as we, not "us and them"; 3) I make no distinction between instructional administration and the administration of the Business areas within the school system.

I am sure that many of you have attended clinics regarding various ways to prepare a budget. You've heard that the budget is the fiscal plan to carry out the educational program in the district. If budgeting is a plan then the spending of the budget logically becomes the plan in action. I suggest to you that without a proper plan on how to expend the budget the budgeting process is of little or no value. For if monies are planned to be spent in one manner and actually are expended in another, you might as well not have a budget. I'm sure no one here would advocate not having a budget. Monitoring expenditures also has a significant effect on the succeeding year's budget. In most instances budgets are planned from preceding years' expenditures.

I would like to divide this topic into three general areas:
1) How policies or stated philosophies provide expenditure control,
2) What are the financial tools for monitoring expenditures? and
3) Areas other than regular school budget that should be included in such monitoring.

I have been involved in school business for the last 14 years and many times I have experienced the frustration of Board members in attempting to monitor expenditures. It seems that one of the most commonly used methods is to wait until an item appears on the bill list or the purchase approval list and at that time raise serious questions as to its necessity. In more instances than not, a Board member who uses this technique merely becomes frustrated as his concerns are not usually shared by the majority of the Board. Also, from an administrative point of view, this gives very little general direction as to what this Board member has in mind. At one time I was in a district where a Board member came in every Saturday and reviewed every single expenditure on the bill list. Not only was this time consuming, it served very little purpose.

The best method for a Board to monitor expenditures is through the use of policies or stated philosophies. These policies should be developed at Board level and executed at administrative level. The Board sets the tone for the specific administrative practices to be carried out. This gives the district flexibility as it is much easier to modify administrative directives than board policy. Such flexibility could allow for more or less restrictions depending on the circumstances and the desires of the board.

I think that by setting the tone in the areas about to be outlined you will readily see how the Board can control the spending philosophy in the district without becoming involved in administration and without any additional work load on the Board or individual Board members.

The first area is that of line item transfers. The two options are ongoing planning or a matching of overexpenditures with surpluses at the end of the year. The suggestion is that the Board require transfers to be made before any overexpenditure occurs or at least on a quarterly basis. This enables transfers to be used as a planning tool as opposed to merely a bookkeeping matter at year end. I feel it is especially important to have two or three occasions on which line item transfers are made before the budget for the succeeding year is made. Because, as we have already stated, this year's expenditures are going to determine in a large part what next year's budget is. (Give example)

The Board should have a specific policy or philosophy regarding transfers in the area of fixed charges. Two ways to handle fixed charges, such as heat, light, insurance, etc., are to budget tightly and to handle any overages through the use of surplus. A more fiscally conservative way would be to budget generously in these areas and not allow any transfers whatsoever from a fixed charge line to a non-fixed charge. (Give an example)

The Board should also address a policy to what type of transfers are allowed among non-fixed charge areas. While a transfer from the textbook line to a school supply line would certainly be allowable, it seems to me that there is a vast difference between taking unexpended monies that were asked for and allowed in textbooks and transferring them to an area such as an air conditioner for the principal's office, the teachers' lounge, etc. For example, at budget time money is requested for textbooks. When it becomes apparent that the entire amount will not be utilized, it is transferred and spent. Thus we now have an expenditure that is not controlled by the Board. The Board places money in a textbook line, it winds up in an area other than textbooks and is expended. This is probably the best illustration why reviewing a bill list is not a recommended procedure for controlling expenditures. The bill list would merely show an expenditure for an air conditioner. In a large school system many air conditioners are purchased by an appropriation for the same. However, additional expenditures can come from a textbook line if you have procedures that allow such a transfer.

Another category that needs special attention is year end transfers. At year end, monies held for contingencies or just not expended, regardless of what line, could be transferred. Then a relatively large expenditure, for an item which was not in the current year's budget nor would it be in the next year's budget, (because as you know at the end of the school year the next year's budget is already set), could be spent on something that would be a relatively low priority. The recommendation is that transfers after March 1 should be disallowed or, if they were to be allowed, then set up specific criteria and have a different screening process. In addition spending money in this manner, which is usually not planned, has an adverse effect on next year's surplus, for less monies will be unexpended if you allow transfers at year end.

In addition to transfers the Board should establish whether their budget is made up of items or dollars. Now what do I mean by that? Let's take several categories. Number one and the most significant is personnel. You may place money for 10 teachers into the budget and anticipate the expenditure for those 10 teachers at $150,000. For many reasons the actual expenditures for those teachers might not come to $150,000. Teacher turnover accounts for most monies not expended. A teacher making $20,000 retires and a new teacher at $10,000 is hired. What is your policy on unexpended funds in the teacher line? Did you provide for 10 teachers or did you provide for $150,000? If you say it is $150,000, you are setting a policy to enable the hiring of unbudgeted teachers.

Another item that causes unexpended funds in the personnel line is partial salary grants. You might receive enough money from partial salary grants to pay for an additional teacher. Without specific guidelines from the Board of Education you could easily hire more teachers than budgeted.

The next area of special note is items that are placed in the personnel budget line for contingencies. For example, in New Jersey there is a rule that says that any kindergarten class with more than 25 youngsters must have an aide. Each year we place three aides into the budget to provide for such occurrences. In a given year if no kindergarten enrollment is over 25, what should be done with the money for those three aides? May they be converted to library aides? May they be converted into teacher aides in other areas? Without specific guidelines this expenditure of money is not controlled and the budget that you planned once again becomes much different.

Equipment is next. Did you budget for 10 typewriters or did you budget $7,000 in typewriters? Many times on a bid 10 typewriters might cost less and there would be money for an additional calculator which was not on the original equipment list. You need a policy or an administrative practice which says whether you budgeted dollars or whether you budgeted items. In our district the rule is we have budgeted dollars or items, whichever is less.

Professional improvement trips are another area where a budget should be clearly defined in order to properly control expenditures. If an appropriation is for $10 a teacher, does the principal have the authority to have one teacher go on a trip for $100? All teachers might not want to go on a trip and this could become an automatic indicator to whoever controls the fund that the money may be transferred within the same line item to a different concept of a trip. (National Convention)

Be especially careful of all purchases at year end, for the reason stated above. This is true even when line item transfers are not involved. Year end purchases are usually shopping expeditions. Items of relatively low priorities are purchased at this time. Without a specific administrative practice or board policy against year end purchases, except in the case of emergencies, it will have the effect of monies being completely expended. This reduces your year end surplus which could have an effect on some future year's program.

Let us now turn our attention to the revenue side of the budget and discuss unanticipated revenue as well as revenue shortages. It is best to establish guidelines in this area at budget time. Whenever a source of revenue is uncertain, it is always in the Board's best interest to be conservative when estimating the amount to be received from that category. A good illustration is revenue earned from interest. There are many factors that could cause this to fluctuate greatly. One is cash flow, two is amount of available surplus for investment, three is the interest rate itself. If revenues exceed the amount anticipated at the time of the budget, are you going to allow the school district to spend those revenues merely because they exist, must there be a specific program for this expenditure, or may they not be spent at all? Keep in mind of course that if the money is spent on an ongoing item the guarantee of having the unanticipated revenue in the ensuing year is by definition not possible. The recommendation is to formulate a policy that unanticipated revenue not be spent, but made to accrue as surplus. Once it is in surplus the Board will have control over its proper utilization.

Another use for unanticipated revenue should be to cover revenue shortages in other areas. Maybe your interest was under estimated but possibly state aid was reduced or tuition received was not as high as expected. The first good use for an anticipated revenue is to make up revenue shortages. However, if there are revenue shortages that take place that cannot be covered by an unanticipated revenue, what is a Board to do? If the shortage is in a flow-through program such as a federal grant, the recommended procedure is to reduce the program accordingly. However, if the revenue shortages are in the Board's regular budget, a reduction of program usually causes greater hardship. If the appropriation of unanticipated revenue is not possible, a Board should look for an unexpended sum of money to prevent the reduction of a program based on revenue shortage. It can also look at the appropriation of surplus. Without specific guidelines you will quickly find that unanticipated revenues will be expended on increased programs while the Board will be faced with the prospect of covering revenue shortages in other areas. It is extremely important that the Board make its wishes known and the administration draw up procedures to enact them. Revenue shortages could have a devastating effect because if the shortage is not discovered until half of the school year is completed, it has the net result of cutting programs equivalent to double the amount in shortage!

Appropriation of Surplus - I know of no district where surplus does not present a management problem. The public thinks the surplus is too much, the Administration feels that the same amount of surplus, when it is considered in light of the overall size of the budget, is too little. The teachers think it should be spent for their raises. Should you appropriate it? Should you retain it? At what level should it be? These are very common questions that we all face.

It is most important to study carefully all legal ramifications in your state. In New Jersey certain use of surplus has an adverse effect on ensuing years' programs. It could also reduce the amount of your State aid. Surplus from current expense may not be used for Capital Outlay. I am sure the regulations in each of your states are different and it is incumbent upon the Board to educate themselves as to all possible ramifications. Once you understand the legal ramifications you must set guidelines. These guidelines should be at board level and answer these questions. Should you use surplus to reduce taxes? Should you use surplus to increase your program? Do you use surplus in an emergency? If an emergency is one of the uses of surplus, it should be defined. Also who decides whether or not a particular item meets that definition?

All uses of surplus should be decided at board level and this is one area where the board should not delegate its responsibility. It also makes the guidelines more difficult to change and could well protect the Board from itself.

It is difficult to recommend many specifics because of the varying legal restrictions from one state to another. I would say in general 1) surplus is best used on one-time items; 2) the amount of surplus that under all conditions should be retained should be set by each and every board; and 3) when appropriating surplus, only consider the amount actually realized. (Explain)

So much for policies. Now to the financial reports which are additional tools for monitoring expenditures.

First and foremost the Board should receive a complete set of reports. The minimum to be included for a complete set would be a Revenue Report, Appropriation Report, a Cash Report, a Bill List and a report that establishes the Board's net worth. Once the Board has the complete set, they must assure that all reports are balanced. I am sure that everyone here is familiar with the basic set of reports. The only reason for mentioning them this morning is possibly not all districts require revenue reports and net worth reports. I want to bring to your attention that these are important in establishing and implementing the policies that were discussed earlier.

It never ceases to amaze me how many districts do not balance their reports every month. By balance we very simply mean that the cash expended on the cash report equals the cash expended on the appropriation report and that those two numbers reconcile to the bank statements. It is embarrassing to hear of the many districts that allow their auditor to balance their accounts at year end when it is a very simple matter to assure that it is done each and every month. The same could be said of net worth. When dealing with public money it is incumbent upon the Board of Education to assure itself that at least the administration knows on a monthly basis what the net worth in all funds is. Naturally net worth takes into account excess revenue or revenue shortages, expenditures, commitments and any previous balance. This enables the Board to know its position at all times and reduces the possibility of dramatic slashing of programs during the year which would have an adverse effect on the educational process when proper monitoring in advance could have prevented such actions.

Lastly, an area that in the past several years has grown tremedously in scope, that of School Accounts, Athletic Funds and Cafeteria Accounts. Unfortunately many districts handle these items differently and the necessary controls are not always used. As a hobby I used to officiate athletic events. As many different schools as I visited it seems that each had their own particular system. There is nothing wrong with different systems, however I do become alarmed when I am paid for officiating an athletic event in cash out of the gate receipts. Certainly that particular district needed greater controls than they seemed to have. Of all these accounts, usually the cafeteria is the largest, and the athletic fund the one most likely to be subsidized by the board.

What should the guidelines be? First, all cash from these accounts must be deposited into a bank account immediately. I recommend that the athletic and cafeteria account not be controlled at the school, but centrally. Also, the kind of expenditures authorized from the athletic account must be clearly defined. It is very easy for an athletic department to make purchases of nonessential items out of their gate receipts then turn to the Board and request additional funds for the program necessities. I see no reason why the policies and practices previously discussed should not be extended to all these accounts. Just because the yearbook, school pictures or school rings are not usually purchased with Board funds does not in my eyes eliminate the need for competitive bidding or financial guidelines. These accounts should be covered by the policies of the Board. Monthly financial reports should be issued in the same manner as monthly financial reports for the Board funds. The account should be reconciled monthly and the amount of subsidy from the Board of Education anticipated in advance. Subsidies for athletic funds or cafeterias are no different from an expenditure of funds for any other program under the Board's jurisdiction. Too many Boards do not include these areas in their monitoring. It could be a costly oversight.

Our talk this morning was not geared toward your being conservative or liberal in your own district. That is up to you. What I attempted to do was show you areas you should control. One word of caution, if you take the conservative option on all the areas discussed, you will definitely have unexpended funds at year's end. This does not mean you overbudgeted.

I hope our discussion has been of some assistance to you. I can assure you that there is nothing difficult in establishing the suggested procedures and I sincerely feel that as a result of these procedures your district will have greater financial accountability with no adverse effect on school programs. Thank you for your attention.

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